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Sales and Marketing MANAGEMENT

KOMATSU IN A CAT FIGHT

Campbell stirs up its sales force

Industrial marketers: an up year

Special Section: Incentives

Komatsu America's executive vice president Tokihiko Hasuo

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Contents
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Sales Management

24
New markets
Clayton Homes move uptown
Sales strategy
When Beantown became DECworld

25
Sales promotions
Air Canada's warehouse sale
New products
Building condos and brand awareness

Marketing Management

28
Marketing strategies
Lee's sales soar on nails
Changing markets
Las Vegas discovers Middle America

29
Promotions
Checking out the View

30
Market expansion
Sweet profits for ice cream treats
Industrial marketing
Delta looks back for future sales

32
Services
Franchisers are at your service
Wholesaling
Warehouse Club sees profits ahead

42
Food and beverage
Pizza Hut launches Calizza
Direct mail
A laugh is worth 1,000 words

Features

50
Komatsu in a Cat fight
The Tokyo-based construction equipment manufacturer is bringing the battle for industry supremacy to Caterpillar's U.S. domain.

54
Nynex's Datago gamble
With trouble abounding in the computer retailing industry, why make plans for a new 50-store chain?

56
Campbell stirs up its sales force
The great American soup company reorganizes and sets out to teach 1,200 sales workers the finer points of local marketing.

60
Will the department store survive?
How the big names in the retailing business scramble to stay alive in the age of the specialty merchandiser.

70
S&MM Salesgraph:
Another up year for industrial marketers

159
S&MM's 1985 Index
A listing by subject of all short takes, features, and departments from last year's issues.

Special Section

97
Incentives
- Incentives get specific *Exclusive reader survey*
- How Micom starts the action
- Barbados or bust!
- Why customers love Treasure Isle
- Borden gets the best out of catalogues
- Unrewarding rewards
- Detroit Diesel Allison sails on a quality cruise
- Lanier stages a shopping spree

Newsletters

46
Industrial newsletter

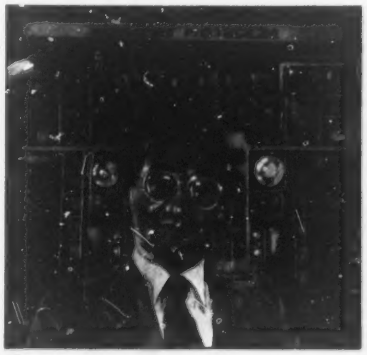
93
International newsletter

45
Marketing newsletter

Departments

155 Advertisers' index
67 Changes in the news
74 Computer in sales & marketing
84 Cooperative advertising
20 Demographics in action
6 Editor's side pocket
72 Ideas you can use
12 Jaundiced eye
10 Letters to S&MM
66 Marketers, Etcetera
94 On the road
27 S&MM Predicts
16 S&MM Viewpoint
154 Sales mart
156 Significant trends
68 Travellers' network
167 Worth writing for

Cover by Altemus



Cover:
In just three years, Komatsu increased its market share in the U.S. from 5% to 10% by cutting prices and building a nationwide dealer network. Now comes the hard part, as the Japan-based firm will be going head-to-head against aggressive Caterpillar. Page 50.

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Smokestack California

The great state of California, not satisfied with being known as the land of sunshine, earthquakes, and valley girls, is now gearing up to lay claim to a rather sacred piece of American real estate: the industrial heartland.

What, you might ask, would anyone want with a lot of smoke-belching factories and cities fraught with economic hardship? Read on.

This may all sound a bit strange to those who have heard that the industrial economy is on its way out, that manufacturing is being replaced by services as the source of America's economic might. Well don't you believe it. Now economists are telling us that manufacturing is absolutely essential to America's long-term fiscal well-being, that the image of an economy based solely on services is a dangerous pipe dream. You hadn't heard that? Well, the people in California have, and they have even gone so far as to draw up a marketing plan—the first in the state's history—to see to it that if any new factories are going to be built, if any new industries are going to emerge, they are going to be based in the land of silicon and sprouts, not in Detroit or Cleveland or Gary, IN.

So we called on Christy Campbell Walters, director of the California Commerce Department, and Robert Monagan, president of the California Economic Development Corp., to discuss some of the plan's specific points as they relate to demographic and socioeconomic changes.

Concerning the rapid increase in the state's Asian population, as well as California's geographic position as the gateway for goods and services emanating from the Pacific basin, Monagan explained that this was just one of a number of important demographic considerations that played a role in designing the marketing plan.

"By 1990," he said, "we're looking at almost 50 percent of our population being non-Caucasion, and the predominant parts of that will be Asian and Hispanic, with whites and blacks becoming the minorities. We're trying to get people to recognize that California is a real international state."

Another part of California's marketing plan stresses the importance of maintaining healthy employment levels, especially in the area of manufacturing. While this may come as no surprise to those who recognize the state as one of the leaders in electronics and computer manufacturing, state officials are also targeting a few other areas that are not so typical—most notably automobile manufacturing and steel fabrication. In addition, says Christy Walters, biotechnology and robotics are high on the list of to-be-developed industries.

Agriculture and electronics

"We're going to focus on manufacturing jobs," says Walters, "because we want our state to be wealthy. We've been wealthy in the past because of agriculture and electronics, and we know that in the future agriculture will remain important, but manufacturing jobs are where we're going to get another kick in productivity per capita. As a matter of fact, manufacturing employment in California is already up. We've gone from about 8 percent of the country's manufacturing jobs 10 years ago to around 10 percent today, an increase of about 300,000 jobs in the face of an overall decline nationally. We had 638 companies that expanded their operations in California last year, well ahead of any other state. In 1984, about 11 percent of these expansions were in rural areas. In 1985, it was well over 30 percent.

"What it boils down to is simple economics. If you take a look back about a hundred years, over 50 percent of all jobs were agriculture-related. Now it's down under 2 percent, but we've been able to produce more and more, particularly in California, and that's what has made us grow. However, as our knowledge of how to do this is transferred outside the country, it's going to be harder for us to compete. Manufacturing is going to see that same kind of decline in employment, but with an increase in productivity much the same as what agriculture has experienced, and that is where it would be misleading to think that we can ignore manufacturing. That is one thing that we in California are definitely not doing."

By Richard Kern,
Editorial Director, S&MM Surveys

As seen by the Survey

California gains while others lose

State	% Of Total U.S. Manuf. Shipments 1979	1984
Georgia	2.33	2.1
Illinois	7.15	6.3
Indiana	3.81	3.36
Kentucky	1.79	1.73
Maryland	1.30	1.2
Minnesota	1.99	1.77
New Jersey	4.21	4.05
Ohio	7.28	6.18
Pennsylvania	6.72	5.85
Wisconsin	0.79	0.63
West Virginia	2.66	2.65
California	**7.33%**	**7.92%**

Nynex's Datago gamble

Some 700 computer retail stores closed their doors last year. Is this any time to start building a 50-store chain?

By THAYER C. TAYLOR
Senior Editor/Management Sciences

"We intend to be a major player in computer retailing. Our stores, when mature, should do between $3 million and $4 million a year, and that's at the low end. I don't see any problem in some of our bigger centers being $1 million-a-month operations."

That's a telephone company executive talking. Specifically, Edwin Schreiner, general manager of the Datago division of Nynex, one of the seven regional telcos created by the AT&T divestiture. (Nynex combines New York Telephone and New England Telephone.)

The first two prototype stores were opened by Business Information Systems (BIS), of which Datago is a part, in December 1984. Since joining Datago in May 1985, the 41-year-old Schreiner has expanded to 17 the number of centers selling PCs, office equipment, and telecommunications gear in four states (NY, NJ, MA, CT), with plans to open six more by mid-year. All this at a time when computer retailers are caught in a shakeout. An estimated 700 closed their doors last year, with the average outlet ringing up only $1.27 million in sales, according to *Computer Merchandising* magazine.

The personable Schreiner talks expansively of a 50-store target. "At that point," he reasons, "you have a base of operations that covers your overhead nicely." To reach that goal, he'll expand outside of Nynex's operating area. "We can go anywhere in the country," he says.

Whether the Datago chief can maintain his breakneck pace hinges on three industry challenges:

1. IBM's moratorium. Last November, Big Blue put a freeze on new dealer authorizations and is selectively awarding exemptions as it tries to reshape the retail terrain to its own liking. Exemptions in hand, Schreiner thinks "it's one of the healthiest things for this business. We have IBM approval for our next six stores, which will keep us busy through June. I'll have to figure out what to do in the second half."

Acquisition may be one route. While rumors persist that Nynex is dickering with the Michigan-based Inacomp chain, Schreiner denies it.

2. Retailer shakeout. "The shakeout in computer retailing that began in 1985 will get worse before it gets better," declared William F. Zachmann, vice president, research, International Data Corp. (IDC), at the research firm's annual industry briefing last month. "Most retailers are highly vulnerable to being caught between the deadly pincers of growing direct-vendor sales from above and mail order and discount dealers from below."

3. Cheaper IBM clones. Schreiner pursues a full-price, full-service sales strategy built around pricey IBM, Compaq, Apple, and AT&T PCs. Those premium models will be hit hard this year by a new breed of IBM compatibles that use Intel's 286 microprocessor and which will be much cheaper.

The Nynex (1985 revenues: $10.31 billion) connection gives Schreiner some insulation from the winds roiling computer retailing. "The ante for computer retailers rose considerably last year," says Phillip Missimore, editor, *Computer Merchandising*. "And Nynex has lots of chips."

Other Nynex resources help, too. Most significant: Data Group software and consulting firm, recently acquired by Nynex, gives Datago an in-house source of programming that can be used to cultivate vertical markets. Schreiner will only say "We've had an exploratory meeting with them, and to the extent we start going into specialized situations there may be some potential there."

Other Nynex resources he taps are The Credit Co., which provides leases and 9.9% financial deals for customers; Properties Co., which scouts potential store sites; and the Mobile Communications Co., which sells cellular phones.

While these resources give Schreiner some leverage the typical retailer lacks, he's more intent on fine-tuning his sales strategy to keep Datago on a fast track. He's changing his product mix to beef up margins, adding an outside sales force to reach bigger prospects, and sharpening his market strategy to exploit vertical niches.

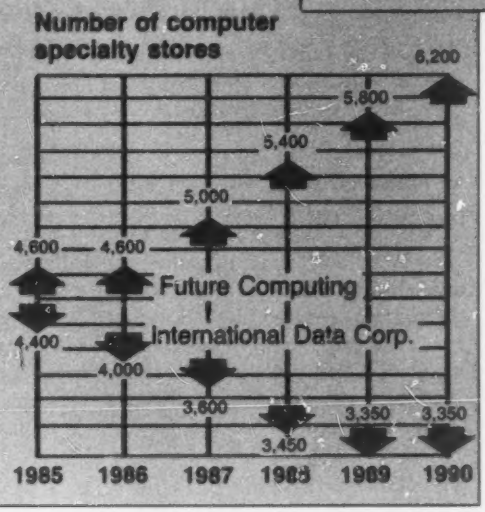
Currently, PCs account for 80% of store sales, telecommunications 15%, and "other" (peripherals, office equipment, and supplies) 5%. He plans to shave the PC share to 55% and boost telecommunications to 25% to take advantage of those products' better margins.

Datago not alone

Sooner or later, Datago's expansion program will bump up against two other regional telcos who entered computer retailing. A year ago, Bell Atlantic, which covers the coastal states from New Jersey to Virginia, bought CompuShop, whose 53 stores span the Midwest, Southwest, and West. PacTel, which operates in California and Nevada, set up PacTel InfoSystems to get into computer retailing, and has 13 stores in northern California, Washington, and Oregon.

An up or down future: Take your choice

The uncertainty hanging over computer retailing is reflected in the contrasting projections by market research firms International Data Corp. and Future Computing. While IDC sees the number of outlets plummeting 1,050 by 1990, Future Computing envisions a 1,600 rise. Quips the research vice president of a third firm that tracks computer retailers: "Thank God for the difference. Clients would buy just one firm's services if we all agreed."



He's also putting in place an outside sales force for each outlet to supplement in-store reps to reach business professionals, purchasing agents, and corporate department heads who, he says, "expect salesmen to come to them." Alice Brown, vice president of Future Computing's distribution group, observes that computer retailers are going direct because "today's tougher customer is not as ready to buy a PC as the first-time users the stores catered to initially." Her associate, senior researcher Bobbi Norvell, notes that among retailers who have gone direct "outside sales rose from 34% of total sales in 1984 to more than 40% in 1985."

Both types of salespeople will be paid on a commission basis exclusively. "I don't believe in salaries," Schreiner says. "We pay better-than-average incentives so that a person who performs can make a very nice income."

In-store reps get a $18,000–$20,000 guarantee "so they have something to live on," he adds. "Outside salespeople will have higher protection because they deal with longer sales cycles."

Recruitment and training, under the aegis of Jean Simmons, director of store operations, will be changed. "Whereas in-store reps are trained on product knowledge and the ability to close fast," Schreiner says, "the outside sales force will be staffed by people who are less technically oriented but strong on professional selling skills. We'll hire only experienced salespeople, preferably with a computer background, because I don't have the funds to train college graduates."

Adding an outside sales force is one thing, what you do with it is another. "In terms of long-term survival, much depends on how Datago sells their products," says Tom Bosley, PC market analyst at IDC. "If they just push boxes, they'll have a difficult time because there are a lot of ways to get cheap boxes. If they take a more solutions-oriented sell, offering consulting and training as well, they have as good a chance as anybody."

Schreiner is clearly opting for the latter tack. Each store will be equipped to provide on-site as well as in-store service, and the function will be operated as a profit center. Outlets will also have customer support analysts to analyze customer needs and recommend solutions. Datago outlets run from 5,000 to 6,000 sq. ft. (vs. an industry average of 3,500) and 1,200 sq. ft. are devoted to training facilities.

Sales specialization will be increased to sharpen Datago's focus on niche markets. "We were founded on the concept of horizontal software for seven vertical markets," Schreiner explains. "If a wholesaler came in, we tried to show him how to integrate the 1-2-3 spread sheet, for example. We abandoned that because it was too limiting when a prospect came in who didn't fit into one of the seven categories.

"We've shifted to a more functional approach where we will, for example, have a manufacturing package that will be a turnkey system, sold by a dedicated salesperson who will have all the support he needs to be successful, including a strong seminar program, direct mail, and telephone followup. We'll do that on a store-by-store basis, depending on what the local market's needs are."

Schreiner isn't fazed by the likelihood that his outside sales strategy will put him in conflict with major vendors. "We can design systems solutions with multi-vendor equipment that IBM, for example, can't do," he argues. "Thus, we offer a service that vendors can't." S&MM

Another up year for industrial marketers

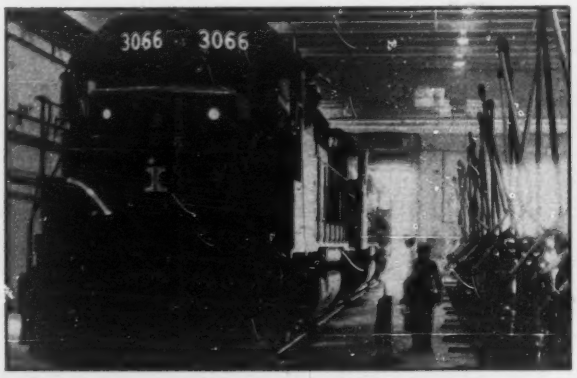
Marketers selling to manufacturing industries will experience the fourth straight year of rising demand in 1986, according to the annual *U.S. Industrial Outlook: 1986*, prepared by the U.S. Commerce Department's International Trade Administration. Median industry shipments should rise 2.2% (on a constant dollar basis) vs. 2.0% last year, says David R. Barton of the Office of Industry Assessment.

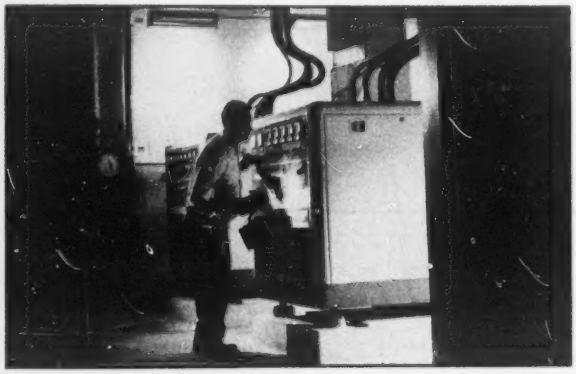
Two familiar hi-tech industries, semiconductor devices, up 28.6%, and computing equipment, up 23.2%, will lead the way. Although semiconductor devices will be coming off a lackluster 1985, their 1986 growth will fall short of their long-term 32.3% annual increment in the 1973–86 period. Computers will be helped by business automation trends and an improved capital spending picture.

Surprisingly, railroad equipment, which has been in a long-term decline, will be the third fastest-growing industry. "Retirement of older equipment, coupled with the production of more efficient cars and locomotives, will stimulate purchases by railroads," says Rolf R. Nordlie, Office of Special Industrial Machinery.

The two industries that will be hit by the biggest drops in shipments, turbines and generators, down 30.7%, and metal-forming machines, off 12.5%, have been on extended downslides. Because they consider their reserves sufficient, utilities are not placing big orders for generating equipment, and metal-forming machines are in the throes of a restructuring into a world, rather than domestic, industry.

In addition to covering 178 vital manufacturing industries, the *Outlook* contains carefully detailed assessments of the 1986 and long-term prospects of 38 service industries.





Industries with best prospects . . .

SIC	Industry	% Gain Shipments 1985–86	1986 Shipments Bil. 1982$	Annual % Change 1973–86
3674	Semiconductor devices	+28.6%	$35.564	+32.3%
3573	Computing equipment	23.2	65.800	+18.0
3743	Railroad equipment	19.4	4.519	– 2.0
3334	Primary aluminum	12.7	4.361	– 2.6
3832	Optical devices & lenses	11.0	6.472	+16.5
3661	Telephone apparatus	10.0	18.082	+ 5.2
3693	X-ray apparatus & tubes	9.9	4.866	+11.3
3567	Industrial furnaces & ovens	9.4	1.340	+ 0.5
3555	Printing trades machinery	9.3	2.855	+ 3.3
2052	Cookies & crackers	9.0	5.671	+ 1.8

. . . worst prospects

SIC	Industry	% Decline Shipments 1985–86	1986 Shipments Bil. 1982$	Annual % Change 1973–86
3511	Turbines & generators	–30.7%	$ 1.649	– 8.6%
3542	Metal-forming machines	–12.5	1.193	– 4.4
3332	Primary lead	– 9.0	.580	– 2.5
3541	Metal-cutting machines	– 9.0	2.660	– 3.3
3731	Shipbuilding & repair	– 8.3	7.985	+ 0.2
3149	Footwear, n.e.c.	– 7.0	.529	– 3.5
3221	Glass containers	– 6.6	3.818	– 2.7
3161	Luggage	– 5.6	.749	+ 0.1
2386	Leather-lined clothing	– 5.5	.153	– 6.6
2874	Phosphatic fertilizers	– 5.5	4.693	+ 2.6

Notes: SIC is Standard Industrial Classification. N.E.C. is "not elsewhere classified."
Source: *U.S. Industrial Outlook: 1986*, U.S. Commerce Department's International Trade Administration.
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from 290 to 280, he adds, "there was a net reduction of 10 among consumer books and a net increase of 10 to 15 among business books." Publishers also sought to ride out a lackluster industry performance "by aiming at narrower vertical markets," Osten says.

The Western Springs, IL, company includes audited and nonaudited magazines in its database. Subscription price for CPDS's service, including six bimonthly updates, is $175.

Computer highlight

PC prospects: Pressure on prices

"Nineteen eighty-six will not be an easy year for PC marketers, and with price cuts and lower revenues it may be too much for some firms." That's the sobering outlook posed by Aaron Goldberg, director of micro advisory service, International Data, at the research firm's six-city round of information industry briefings last month. Added Goldberg: "Marketers will have to squeeze even more costs out of manufacturing and distribution. Solving actual end-user problems will take precedence over technological innovations."

The PC market this year will be marked by these leading trends, Goldberg said: "Major price declines by June, buying based on need rather than expectations, no breakthrough in software, and the beginnings of an upgrade business."

Strong price pressures were also predicted by William F. Zachmann, research vice president. He said Intel's 286 microprocessor will lead to "much lower prices for IBM PC/AT-compatible systems generally, growing market share for more aggressively priced systems, and eventually much lower prices from IBM and Compaq, as well."

1986 outlook by PC segment . . .

Sector	1986 Shipments Units (000)	% Change 1985–86	Installed Base (000) End of 1986
Business	3,300	+13.0%	11,633
Home	1,989	−12.0	13,076
Education	710	+25.0	2,103
Scientific	271	+17.8	935
U.S. Total	**6,270**	**+ 4.9%**	**27,747**

. . . and 10 market leaders

Vendor	1985 Shipments Units	% of U. S. Market
IBM	1,770,600	29.6%
Apple	987,000	16.5
Commodore	860,000	14.4
Tandy	441,000	7.4
Atari	330,000	5.5
Compaq	216,000	3.6
AT&T	188,100	3.1
Hewlett-Packard	138,600	2.3
Zenith	102,600	1.7
Wang	75,000	1.3
All others	869,129	14.6
U.S. Total	**5,978,029**	**100.0%**

Source: International Data Corp., *Directions '86*.
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TELEPHONE PROSPECTING

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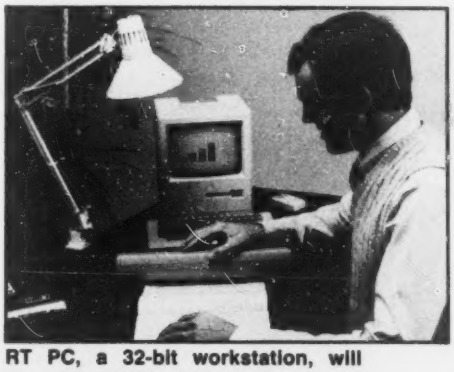
Bytes

• IBM unveiled a new PC family, the RT PC line, that will handle complex tasks at high speeds normally done by large mainframes. Capability comes from an IBM-developed chip called Reduced Instruction Set Computer (RISC) architecture. The ability to be configured with IBM's successful 5080 graphics system gives the RTs a strong selling point, says Merrill



RT PC, a 32-bit workstation, will spearhead IBM's drive to reach 3 million technical professionals.

INCENTIVES GET SPECIFIC

They're not just for pumping up the sales force anymore. An exclusive survey shows incentives are becoming a key tool in target marketing.

By AL URBANSKI
Managing Editor

As is the case with any tool, the quality of work it does depends on who's using it. One man picks up a brush and sees eight hours of drudgery painting his porch; another envisions the *Mona Lisa*.

The same goes for the marketing tool known as sales incentives. When we at S&MM ask sales managers why they're not using incentives, or why they're cutting back on them, we usually don't have to listen very hard. The same stock answers come back again and again. The voices may be different, but they are uniformly unconvincing. "They just don't work," they say, or "Our guys would rather have the cash," or "We just do it because the competition does." Now, all of these reasons may be justifiable in given situations. But our guess is that these folks just never picked up this tool and played with it, thought about it, experimented with it. Maybe they didn't like the feel of it, or didn't have the time for it.

Incentives tend to work for people who work to develop their potential, like Steven Kendall, one of nearly 200 readers who responded to S&MM's 1986 survey of incentive usage. Kendall is director of market development for Brandt, a Watertown, WI, company that sells money handling systems. The nature of the product, he says, presents him with great opportunities—and great problems. "We sell across so many different markets," says Kendall, "to banks, retailers, casinos, transit companies—just about any business that sells its products for cash. That's why we have incentive programs that focus on certain products and certain markets."

Brandt offers its salespeople "fast start awards," given to those who make the first sales of new

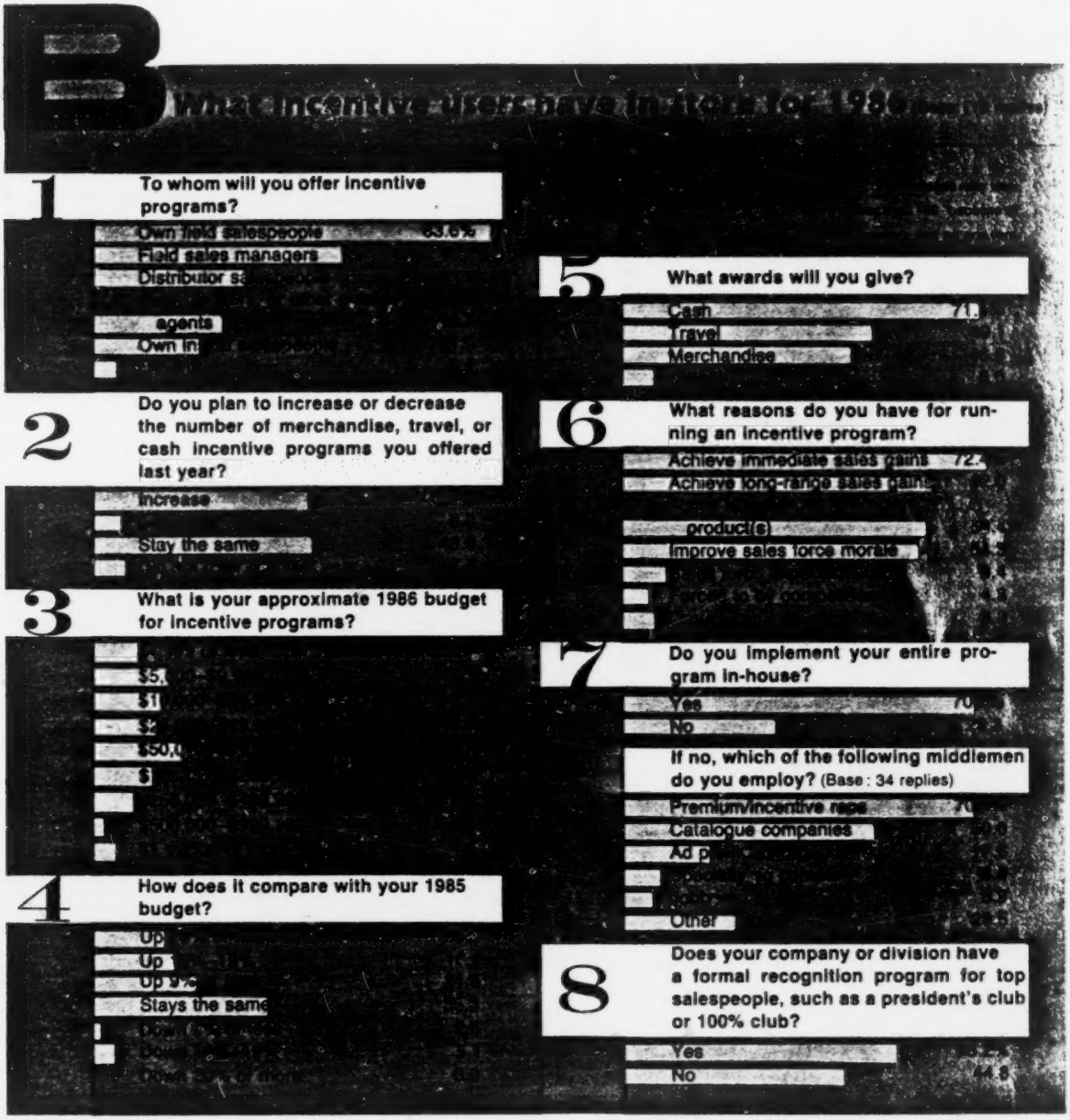
(Base: 189 replies) **Overall survey results**

A

1 **Will your company or division offer merchandise, travel, cash, or other incentives (not including commissions) to your own or to outside salespeople this year?**

2 **Does your company or division have a formal recognition program for top salespeople, such as a president's club or salesperson of the year award?**

3 **Your annual sales?**



products. It has "penetration bonuses" for additional sales in target markets. Over a period of two years, Kendall has worked out a system of tailoring prize catalogues to the performance levels of salespeople for maximum motivation. "We screen them very carefully," he says, "to make sure the prizes are something they want and that they can earn."

It works, says Kendall, especially since Brandt made incentives part of its marketing plan: "We use incentives as a continuing marketing tool. We can focus them on a specific problem."

Kendall is not alone, judging from how other survey respondents answered the question, "What reasons do you have for running an incentive program?" Nearly 60% said their programs "focus attention on specific products," an increase of 16% over respondents who gave that reason in S&MM's last incentive survey, conducted in 1984. Comments from two different incentive users indicate that this is a developing trend.

Jim Feldman of Feldman Associates, a Chicago marketing services firm that designs incentive programs for a wide range of clients, says he has noticed an increase in requests for specific-product promotions. "With the economy on an upswing, companies are pushing new technology and new products," he says. "Almost every promotion we're doing includes specific products as these companies try

Percentages may total more or less than 100 because of multiple answers and no answers.

The word from nonusers

(Base: 73 replies)

1 Why won't you use merchandise, travel, or special cash incentives in 1986?

2 Has your company or division used any merchandise, travel, or special cash incentives in the last three years?

3 Do you plan to offer such incentives in the future?

to unload their old inventory."

But incentives are being employed to ignite the introduction of those new products, as well. "Just in the past year, we've been using incentive programs to put more emphasis on our new products, not our commodity lines," says Bert Bruffett, vice president of sales and marketing for L.K. Baker, a Columbus, OH, division of Rich Products that sells dry food mixes to restaurants and institutions. In fact, Bruffett's incentive marketing plan also includes an assault on target markets. "We're custom-designing programs to reach multi-unit restaurant operations," he says, "which we see as an important long-range market."

Conclusion: Incentives are not just for pumping up the sales force anymore. In the proper creative hands, incentives are becoming an important tool in target marketing.

Mailed to 1,000 subscribers in January, S&MM's exclusive survey of incentive usage explores the reasons why sales and marketing managers will—or will not—use incentive programs this year. The survey also asked readers to tell the types of awards they offer, who in their organizations are eligible to receive awards for improved performance, and whether they've increased or decreased their incentive budgets for 1986. The statistics quoted in this article and the accompanying tables are based on 189 replies received by the cutoff date.

Survey results show that sales executives are also expanding their sights when it comes to deciding whom they should be motivating with incentive awards. Field sales managers will be included in 49% of the programs being offered by survey respondents this year vs. only 38% two years ago. This, too, is a trend that has been noted by consultant Feldman. "More and more programs are being opened up to managers," he says, "and for two reasons. One: There has been a very strong transition to bringing up managers from the sales ranks versus hiring them from outside. They got incentives as salespeople and they're still expecting them. Two: In the past, many sales managers got only salary, and that's a disincentive to being a manager."

Brandt's Kendall would not think of excluding managers. "We consider sales managers the key to succeeding in our plan," he says. "We view it as a pyramid. If we can motivate the people on the top, it gets transmitted to the base."

There was also a sharp gain in incentive contests for distributor salespeople. Some 30% of respondents said they planned distributor programs this year as opposed to only 21% in 1984. Says one West Coast regional sales manager: "It's just one of the ways that we keep our names in front of them. We look at distributor programs as having long-term benefits."

But while companies seem to be covering more ground with incentives, they won't be spending much more money on them. Only 15% of survey respondents said they would raise their budgets by 20% or more compared to 25% who said they would march out bigger bucks in S&MM's last survey. A greater percentage plan to go with more conservative increases—in the 9%-or-less range—and twice as many said they would decrease spending on incentives in 1986. "It parallels inflation," says Ken Peterson of Rogers Merchandising, a Chicago incentive division of Young & Rubicam, "It's been limited, so there's no pressure to increase budgets. The pressure is to keep budgets in line."

This finding is supported by figures showing a 9% increase in U.S. spending on trade incentives in 1985, to $5.4 billion. By comparison, the same tally for 1984 indicated a 17% rise. (See chart, page 136.)

More middlemen

This year's survey also revealed a shift in the types of prizes being offered. One-quarter of respondents said they would award only cash in their programs, another quarter of the sample planned to offer only merchandise or travel, and the remaining 50% will blend both cash and non-cash awards.

In 1984, 30% left cash out of their programs, while only 18% clung to greenbacks as their sole motivator. Why the switch?

"Merchandise probably isn't the same value it was years ago," says George Kling of Potential Profits Group, a Branford, CT, incentive marketing consultant. "There're more middlemen out there, like promotion agencies, jobbers, and specialty ad distributors, and you have to pay for their services. Some of the incentive houses charge as much as 125% of retail for the merchandise in their catalogues."

A number of companies that fa-

vor travel programs are cutting back by offering trips to a more elite group.

"I've had requests for really exotic trips that cost $5,000 to $6,000 per couple," says Feldman of Feldman Associates. "They're cutting budgets, but they're increasing the value of the award and taking fewer people."

Still on the rise are recognition programs, top performer honors which go by various names: President's Club, Sales Achievers, Rookie of the Year. In 1983's survey, only 44% of incentive users said they also sponsored recognition awards. That figure shot up to 54% the next year and holds steady at 55% this year. Some companies are even using these achievement awards to focus on specific problems. Stuart Marcus, vice president of sales for Gold Lance in Houston, says his company's recognition program was designed to slow down personnel turnover and increase territory sales. And a director of sales for the midwestern division of a large chemical company uses his program to recognize not only the leading salespeople, but also their biggest cheerleaders. Thus the top performers get plaques and their spouses receive checks.

By contrast, only 22% of respondents who have no incentive plans for 1986 will offer recognition awards, though they are catching up. The 22% figure represents a 57% increase in recognition programs among incentive nonusers.

Why do some companies avoid using incentives? Apparently, it's not because they think that such sales contests are not effective. While the biggest reason given was "We don't feel they are necessary," 20% fewer nonusers claimed that as an excuse than they did two years ago. Likewise, 14% of the 1984 sample said they had tried incentives, but they "didn't accomplish our objectives" vs. only 5% who gave that as a reason this year. Some 30% of nonusers say they have employed incentives in the past, so perhaps they, too, are pinching pennies. The second biggest excuse given was that incentive programs are "too costly."

Going in-house

More incentive users are saving bucks this year by becoming do-it-yourselfers. A full 70% of respondents said they would design and administrate their programs in-house this year, a 5 percentage-point rise from 1984. "We had to go easy on the budget," explains a regional sales manager for an East Coast electronics company, "but we didn't want to cut the value or distribution of awards." Those who did employ outside help went most often to premium/incentive reps (71%) and catalogue companies (50%).

No matter how they get there, incentives are being delivered by the majority of companies, 61%, in S&MM's survey sample. That in itself is a ringing endorsement for this tool that motivates, but also can help deplete inventory, get the word out on a new product, or even open up new business opportunities. So take a cue from S&MM readers who have found out how to get the most punch out of incentive contests: If you plan to pick up this marketing tool, be creative. S&MM

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ADVICE FROM AN EXPERT

UNREWARDING REWARDS

If a sales contest ends up with one winner, and he is the same person who won last year, and, furthermore, he's the top sales performer, you have a threefold unrewarding reward.

First, with one winner, everyone else on the sales force is a loser. Second, winning repeatedly reinforces this effect. Third, the winner does not need the reward, which usually serves to make him unpopular with his colleagues.

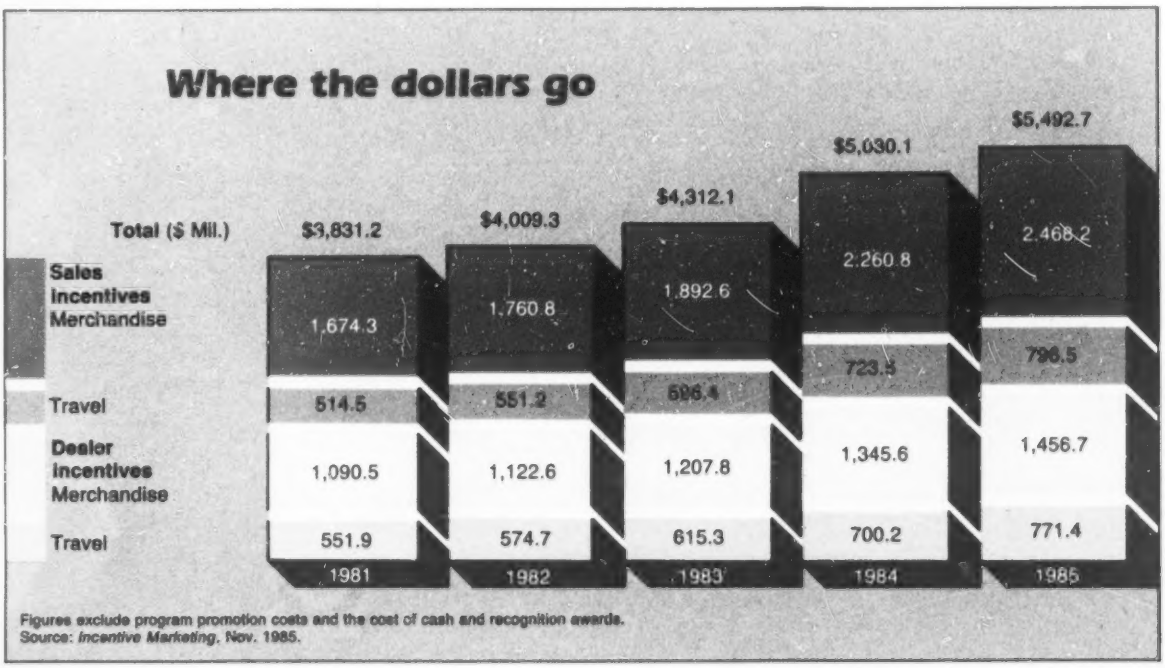
Under these circumstances, the result for the company obviously is not very rewarding. The net increase in total sales is minimal.

Is it surprising that contests, supposed to act as motivators, so easily become demotivators? After all, sales contests have been around for quite a while, and companies should know how to use them. However, one should take a second look at the whole area of sales incentives, because wrong systems by far outweigh the right ones. So the situation is not really surprising.

This article was written by **Heinz Goldmann,** a well known authority on motivation, who is based in Geneva, Switzerland. His U.S. company is Mercuri Goldmann International, New Canaan, CT.

Here is a roster of wrong contests:

- Any contest that rewards one, or a few, winners is bad business for the company and demotivates the bulk of the losers, who quite often, instead of increasing their results, weaken their efforts and sell less than before. What would you do in such a contest when you realize you have no chance to be a winner?
- Sales contests have nothing to do with sports contests. Top performers don't add significant results to your sales figures. It is the bulk of your salespeople whom you should motivate to increase their sales. Therefore, don't just have winners, but as many as possible. This you do by allowing everyone to compete against his own targets and to win if the goals are reached or exceeded.
- Contests at the same periods, usually toward the end of the year, are anticipated by salespeople. They are often seen as what they really stand for—attempted remedies against bad planning. Worse than that, salespeople slow down their efforts before the contest—and afterwards.
- Contests with repeatedly identical goals, mostly sales volume, are a blatant contradiction of basic



Figures exclude program promotion costs and the cost of cash and recognition awards.
Source: *Incentive Marketing*, Nov. 1985.

marketing principles. Remember, you have more important goals than just total sales, and these goals change with market segment developments.

- If you are looking for a "just" or even a "fair" contest, you will have to give up quickly, because there is no such thing. A contest should be a marketing tool for reaching specific goals, and consequently some areas and people will be favored before others. Your solution must be to explain what your goals are and why and change the formula often enough to offset upsetting injustices.
- Don't award the same prizes, contest after contest. They lose impact. If you have a good incentive pay system, don't give money prizes. Gifts, travel, special events, and other nonfinancial rewards will create more enthusiasm. A new reward that is quickly becoming popular: travel-and-study. This may include university courses, study tours abroad, status seminars, training events for growth, and other things that combine self-development with a useful investment for the company.
- Contests that don't include the non-selling staff will cause you to lose a singular opportunity to involve the rest of the company, make them reinforce and push their sales colleagues, and reduce the barriers between the groups.
- Don't let your sales contest become a guessing game, with just an added performance reward. Every time you don't explain how your salespeople should proceed to win, you lose opportunities for extra sales. Again, there is a basic misunderstanding about the purpose of sales contests. They are certainly not meant to be an intelligence test.
- If you don't link sales contests to specific training, you are wasting opportunities for extra performances. People learn when they feel a need. When do you think such a need is felt more strongly than when people want to win a contest and training will help them to do so?
- If you free yourself from the fallacy that sales contests must reward overall performance, rather than, for instance, reward increases in results, you are admittingly favoring average and low performers instead of your top people. Obviously, it is easier for the lower performers to improve their results. This kind of injustice is a good deed, as it gives them a real break, and it will add much more significantly to your results, provided, of course, that you have a remuneration system favoring top results.

Thus think once more, before you organize your next sales contest, and it will become a winner. Especially if you create real excitement as it starts, while it runs, and when it ends.

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